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May 16, 2005

VIA HAND DELIVERY

Mr. Charles Terreni
Chief Clerk Administrator
Public Service Commission of South Carolina
101 Executive Center Drive
Columbia, South Carolina 29210

RECEIVED
2005 MAY 16 PM 12:44
SC PUBLIC SERVICE
COMMISSION

Re: Application of Piedmont Natural Gas Company, Inc. for Approval of Modifications To Its Experimental Hedging Plan

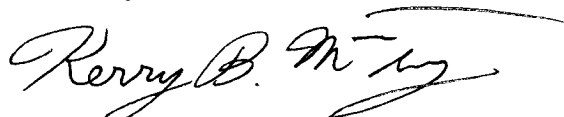
Dear Mr. Terreni:

Enclosed please find an original and 26 copies of a *Petition* of Piedmont Natural Gas Company, Inc. in the docket shown above. Please accept the original and 25 copies for filing and return the additional "file-stamped" copy in the enclosed self-addressed stamped envelope.

Please note that this Petition seeks interim relief on or before June 1, 2005 as well as permanent modifications to Piedmont's Hedging Plan.

Thank you for your assistance with this matter. If you have any questions about this filing you may reach me at the number shown above.

Sincerely,


Kerry B. McTigue

bo
Enclosure

Mr. Charles Terreni
May 16, 2005
Page 2

cc: Office of Regulatory Services
5 copies hand delivered to:
1441 Main Street, Suite 300
Columbia, SC

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2005-146-G

2005 MAY 16 PM 10:44
PSC
DOCKET NO. 2005-146-G

In the Matter Of)
)
Application of Piedmont Natural Gas)
Company, Inc. for Approval of Modifications)
To Its Experimental Hedging Plan)

PETITION

Piedmont Natural Gas Company, Inc. ("Piedmont"), through counsel, hereby requests approval by the Public Service Commission of South Carolina ("Commission") of limited modifications to Piedmont's approved Experimental Natural Gas Hedging Program ("Hedging Program" or "Plan") in order to increase Piedmont's ability to utilize fixed-price instruments and complimentary options transactions in making both time-driven and price-driven hedges under Piedmont's Plan. As is explained below, increased utilization of fixed-price instruments (with complimentary options transactions where appropriate) is necessary in order to accommodate changes in the natural gas futures markets and to ensure the continued ability of Piedmont's Hedging Program to help stabilize gas costs paid by South Carolina customers. In order to permit Piedmont to enter into effective hedging transactions for next winter's gas supplies beginning on June 1, 2005, Piedmont requests interim authorization to implement the changes proposed herein effective June 1, 2005, pending final approval of the proposed Hedging Program modifications. In support of this request, Piedmont respectfully shows unto the Commission as follows:

1. Any notices or other communications with respect to this Petition should be sent to:

Kim R. Cocklin
Senior Vice President and General Counsel
Piedmont Natural Gas Company, Inc.
P.O. Box 33068
Charlotte, NC 28233
Telephone: (704) 364-3120

And

James H. Jeffries IV¹
Moore & Van Allen PLLC
Bank of America Corporate Center
100 North Tryon Street, Suite 4700
Charlotte, North Carolina 28202-4003
Telephone: (704) 331-1079

And

Kerry McTigue
Nelson Mullins Riley & Scarborough, LLP
1320 Main Street, Suite 1700
Columbia, South Carolina, 29201
Telephone: (803) 255-9218

2. Piedmont is incorporated under the laws of the state of North Carolina and is duly authorized by its Articles of Incorporation to engage in the business of transporting, distributing and selling natural gas. It is duly domesticated and is engaged in conducting the business above-mentioned in the states of South Carolina, North Carolina and Tennessee. Piedmont is a public utility under the laws of this State, and its public utility operations in South Carolina are subject to the jurisdiction of this Commission.

3. In Order No. 2002-223, issued on March 26, 2002, this Commission approved Piedmont's Experimental Natural Gas Hedging Program pursuant to which Piedmont was authorized to engage in certain natural gas hedging transactions in order to attempt to help stabilize the prices of natural gas paid by South Carolina customers served by Piedmont.

¹ Mr. Jeffries is concurrently requesting admission to practice before this Commission in this matter *pro hac vice* in conformance with the rules of the South Carolina Supreme Court.

Piedmont's Plan, as approved by the Commission, is non-speculative in nature leaving only very limited discretion to the Company in its operation, primarily in the area of what type of approved financial instrument is utilized in certain circumstances to hedge. The Plan limits the amount of Piedmont's gas supplies that can be hedged and specifies the types of hedging instruments that can be utilized in various circumstances.

4. Under Piedmont's Plan, Piedmont is authorized to engage in both "price-driven" and "time-driven" hedging transactions for specified percentages of Piedmont's gas supply. Under the Plan, price-driven hedges are made when the futures price of natural gas is at or below historical median averages. Up to 60% of Piedmont's normalized sales volumes can be hedged under price-driven parameters. Time-driven hedges are made in order to provide some degree of price protection to consumers when the futures price of natural gas is above historical median averages and little or no price-driven hedges are in place. Up to 30% of Piedmont's gas supply can be hedged under time-driven parameters. Piedmont's Plan calls for time-driven hedges to be made beginning five (5) months before each winter heating season to the extent price-driven hedges are not in place to cover the supplies necessary to serve South Carolina customers during that period. Each of these existing aspects of Piedmont's Hedging Program were reviewed and approved by this Commission in Docket No. 2001-410-G.

5. Under its current Plan, Piedmont is authorized to utilize fixed-price instruments only under its price-driven hedging parameters and only when the prevailing futures price of natural gas is very low compared to long term historical averages.

6. Since the issuance of order No. 2002-223, Piedmont has operated its Plan consistent with these terms. During the intervening period, the Plan has achieved its objective by contributing to the stability of natural gas prices paid by South Carolina consumers.

7. Since the implementation of Piedmont's Plan, however, the natural gas futures market has matured and experienced several changes. These changes have diminished the

effectiveness of the hedging mechanisms approved under the Plan for stabilizing natural gas prices for South Carolina consumers. Specifically, the range of protection against volatility provided by non fixed-price instruments -- which have heretofore served Piedmont well -- has decreased substantially as a result of market participants being unwilling to accept the same degree of price risk as they have over the last few years. As a result, the instruments and specifications currently included under Piedmont's Plan no longer provide the same degree of protection from volatility in gas prices as they did when Piedmont's Plan was originally approved by the Commission in March of 2002. By adopting the limited modifications described herein, Piedmont believes that it will be able to further decrease volatility in natural gas prices paid by South Carolina customers and increase the value of its hedges while maintaining current cost structures.

8. Piedmont has conferred with its outside hedging plan consultant, Risk Management Incorporated ("RMI"), on how to address the phenomenon of the declining efficiency of the instruments approved under Piedmont's current Hedging Program to stabilize the price of its South Carolina gas supplies.

9. After substantial consultation with RMI, and in order to adapt to the changes in the natural gas futures market and enhance the effectiveness of its approved Experimental Natural Gas Hedging Program, Piedmont proposes the following changes in the Plan parameters:

- A. Implementation of an additional fixed-price hedging mechanism at the 40th and 50th decile under Piedmont's Plan for the volumes eligible for price-driven hedging at the 40% and 50% decile levels, with the option to accompany such hedges with a complimentary options strategy under which costs would be limited to the current limit of 4% to 6% of the trigger price.

- B. Adoption of a call spread tool to be added to all deciles and limited to 4% to 6% of the buy trigger price.

10. Piedmont believes that implementation of these changes to its Plan are necessary and will have beneficial effects on the stability of gas prices paid by South Carolina consumers.

11. The changes set forth above were approved by Piedmont's Energy Risk Management Committee on May 10, 2005. They have also been approved by the Company's leadership team. These changes represent minor refinements to Piedmont's existing approved Plan which are required by changing market conditions. These changes do not materially modify any substantive aspect of the Plan, do not materially increase the risk to customers under the Plan, and serve primarily to expand the range of tools available to Piedmont under Plan parameters.

12. Based upon information available to Piedmont, the types of fixed-price hedging and options transactions for which authorization is sought in this Petition are regularly engaged in by other natural gas utilities, including those in South Carolina, under approved hedging plans.

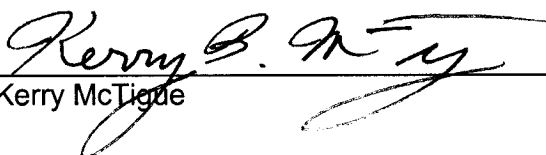
13. Under Piedmont's Plan parameters, time-driven hedging for the upcoming 2005-2006 winter heating season will begin on June 1, 2005. Piedmont appreciates that this does not leave the Commission with much time to conduct a formal hearing process on this request, if the Commission determines that such a process is necessary in this case. If the proposed changes herein are not in effect on June 1, 2005, however, the efficiency of Piedmont's hedging activities for the upcoming winter heating season may be materially diminished to the detriment of South Carolina consumers. In order to avoid this result, Piedmont seeks authorization, on an interim basis, to implement the proposed revisions to its Plan pending final Commission action on Piedmont's request to permanently modify its Experimental Natural Gas Hedging Program as

described herein.

WHEREFORE, Piedmont Natural Gas Company, Inc. respectfully requests that the Commission grant interim authorization for Piedmont to implement the changes to its Experimental Natural Gas Hedging Program effective June 1, 2005 and to approve these proposed changes on a permanent basis as soon as reasonably practical.

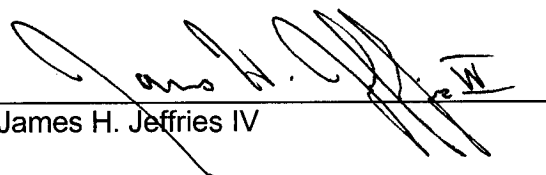
Respectfully submitted, this the 16th day of May, 2005.

PIEDMONT NATURAL GAS COMPANY, INC.


Kerry McTigue

OF COUNSEL:

Nelson Mullins Riley & Scarborough, L.L.P.
1320 Main Street, Suite 1700
Columbia, South Carolina 29201
Telephone: (803) 255-9218


James H. Jeffries IV

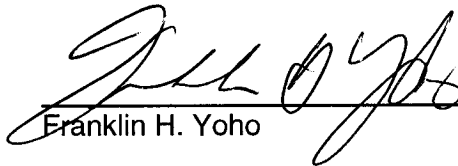
OF COUNSEL:

Moore & Van Allen PLLC
Bank of America Corporate Center
100 North Tryon Street, Suite 4700
Charlotte, North Carolina 28202-4003
Telephone: (704) 331-1079

STATE OF NORTH CAROLINA
COUNTY OF MECKLENBURG

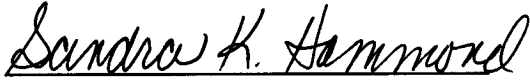
VERIFICATION

Franklin H. Yoho, being duly sworn, deposes and says that he is Senior Vice President of Commercial Operations of Piedmont Natural Gas Company, Inc., that as such, he has read the foregoing Petition and knows the contents thereof; that the same are true of his own knowledge except as to those matters stated on information and belief and as to those he believes them to be true.



Franklin H. Yoho

Sworn to and subscribed before me
this the 12th day of
May, 2005.



Notary Public

My Commission Expires:

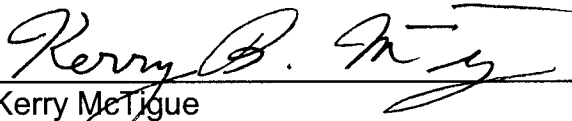
August 4, 2008



CERTIFICATE OF SERVICE

The undersigned hereby certifies that five copies of the attached *Petition* are being served upon the Office of Regulatory Staff via hand delivery to 1441 Main Street, Suite 300, Columbia, South Carolina.

This the 16th day of May, 2005.


Kerry McTigue

REC'D
2005 MAY 16 PM 12:14
SO REG STAFF
COLUMBIA SC